April 6, 2009

The Honorable Michael E. Fryzel
Chairman, National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland
Board Member, National Credit Union Administration

Re: Comments on Advanced Notice of Proposed Rulemaking for Part 704
Sent via email to: regcomments@ncua.gov

Dear Chairman Fryzel, Vice Chairman Hood, Board Member Hyland:

Thank you for the opportunity to comment on the ANPR. I have delayed responding since the Corporate Stabilization is so fluid. There are several comments I would like to make before answering the specific questions. First credit unions are nonprofit cooperates organized for the benefit of their members likewise corporate credit unions were created with the same principles and should be operating for the benefit of their member owners the natural person credit unions.

The crisis we face today was not created by the corporate credit unions or the credit unions they serve. There is plenty of blame to go around from Wall Street to the rating agencies to public at large and yes even the regulators played a large role in this crisis. We need to be very deliberate when deciding to make changes to a network that has served the credit union community so well for so long. Therefore, I respectfully ask that open dialog be permitted after careful analysis of the causes to this global meltdown to assure that the best possible solutions are considered.

Sincerely,

Gary R. Clark
President/CEO
Missoula Federal Credit Union

Attachment: Response to ANPR

Response to ANPR

Payment System Proposals

1. Should payment system services be isolated from other services to separate the risks? If so, what is the best structure for isolating these services from other business risks?

Response: No. If payment system services are isolated the cost to the natural person credit unions will increase and the settlement services will be less attractive. Risk will not necessarily be reduced, it needs to be managed.

2. Should there be a charter that strictly limits Corporates to operating a payment system only?

Response: No. It will only increase cost and not reduce risk. We already have the Federal Reserve for larger credit unions and for profit banks for smaller credit unions should the natural person credit union want a different vendor. The corporate credit unions are essential for the smaller credit unions. The for-profit banking sector has not exactly been a model of reduced risk.

3. Is there sufficient earnings potential in offering payment systems to support a limited business model that is restricted to payment systems services only?

Response: No. Many item processing owned by credit unions have sold to corporate credit unions to reduce cost.

Liquidity and Liquidity Management Proposals

1. What steps should be taken, and by whom, to preserve and strengthen Corporates' ability to offer liquidity services?

Response: The CLF is an important part of this process, it should be used for both natural person credit unions and as well as the corporate. Each credit union should plan for liquidity needs but for the small credit union the cost to go to for profit banks is very expensive and even with a guaranteed line the for profit bank is only as good as its capital position.

2. Should the NCUA consider limiting a Corporate's ability to offer other specific types of products and services in order to preserve and defend the liquidity function?
What specific types of products and services should Corporates be authorized to provide?

Response: No, there are services and products that the natural credit union need and use ACH for example that must continue to be offered.

3. Should the NCUA add aggregate cash flow duration limitations to Part 704?

If so, describe how this requirement should be structured, and also identify how such limitations would benefit liquidity management.

Response: no response

Field of Membership Issues

1. Should the agency return to defined FOMs to address what they perceive as risk associated to expanding FOM?

Response: No, they should make each natural credit union have membership in the corporate they use and not just rate shop. It is not the FOM that is the problem, it is how the natural person credit union invest in the corporate credit unions.

Expanded Investment Authority

Currently, Part 704 provides an option by which Corporates meeting certain criteria can qualify for expanded investment authority.

1. Does the need for expanded authorities continue to exist?
If so, should NCUA modify the procedures and qualifications by which Corporates currently qualify for expanded authorities?

Response: Yes, one of the problems in this current crisis is that both the natural person credit union and the corporate were pushed into concentration levels that were too high. To Qualify for expanded authority they need the appropriate expertise and the appropriate amount of capital.

2. Should NCUA reduce the expanded authorities available?
If so, which ones?

Response: No, they need to evaluate the expertise at the corporate and the amount of capital they have.

3. Alternatively, should any of the limits in existing expanded authorities be reduced or increased?
If so, which ones?

Response: No, as long as they are examined appropriately and have sufficient capital.

4. Once granted, should NCUA require periodic requalification for expanded authorities?
If so, what should be the timeframe?

Response: NCUA currently has sufficient examinations in place for the size and scope of the corporate.

Structure: Two-tiered System

The Corporate system is made up of two-tiers: a retail network of Corporates that provide products and services to NPCUs, and a single, wholesale Corporate (U.S. Central) that exclusively services the retail Corporates.

1. Does the two-tier Corporate system in its current form meet the needs of credit unions?

Response: Yes, the smaller corporate cannot provide the full range of services that are provided through US Central.

2. Is there a continuing need for a wholesale Corporate credit union?
   If so, what should be its primary role?

Response: Yes to provide service to the smaller corporate and bringing economies of scale to them.

3. Should there be a differentiation in powers and authorities between retail and wholesale Corporates?

Response: Yes, the wholesale corporate should not go directly to the natural person credit union and provide direct service.

4. Does the current configuration result in the inappropriate transfer of risk from the retail Corporates to the wholesale Corporate?

Response: no

5. Should capital requirements and risk measurement criteria (e.g., NEV volatility), be different from those requirements that apply to a retail Corporate credit union?

Response: Yes capital should be risk based and there may be more risk at the wholesale level.

Corporate Capital

NCUA is considering revising various definitions and standards for determining appropriate capital requirements for Corporates. These changes would bring the Corporate capital requirements more into line with standards applied by other federal financial regulators. Another issue under consideration is whether to require a certain level of contributed capital from any natural person credit union seeking either membership or services from a Corporate.

Core Capital

Under the current rule, core capital is defined as retained earnings plus paid-in capital.

1. Should the NCUA establish a new capital ratio that Corporates must meet consisting only of core capital, and if so, what would be the appropriate level to require?

Response: NCUA should include or convert non-GAAP capital to perpetual capital in today's environment. Also, they should consider increasing total capital standards for expanded authorities, without additional requirements on types of capital.

2. What actions are necessary to enable Corporates to attain a sufficient core capital ratio?

Response: Secondary capital would be a good first step.

3. What would be an appropriate time frame for Corporates to attain sufficient capital?

Response: Once the regulations are changed it will take time so either they can shrink the balance sheet somewhat and the process not so painful as to drive the natural person credit union away.

4. What is the appropriate method to measure core capital given the significant fluctuation in Corporate assets that occur?

Response: The method must be flexible since the balance sheet of the corporate rises and falls with the natural person credit union. It must also be risk based and compatible with the authority the corporate has.

5. What is the correct degree of emphasis that should be placed on generating core capital through undivided earnings?

Response: Less on undivided earnings since the corporate must be competitive and more on the fact that the corporate is backed by the natural person credit union and their capital.

6. Should there be a requirement that a Corporate limit its services only to members maintaining contributed core capital with the Corporate?

Response: Yes that is the best first step.

7. Offer any other suggestions or comments related to core capital for Corporates.

Response: Must be flexible with risk and variation in size.

Membership Capital

1. Should the NCUA continue to allow membership capital in its current configuration, or should the agency eliminate or modify certain features, such as the adjustment feature, so that membership capital meets the traditionally accepted definition of tier two capital?

Response: All capital should be included in minimum requirements. It must be flexible in times of liquidity needs.

2. Should adjusted balance requirements be tied only to assets?

Response: It should be based on the natural person credit union's assets.

3. Should the NCUA impose limits on the frequency of adjustments?

Response: It should be similar to the NCUSIF adjustments.

4. Should the agency require that any attempted reduction in membership capital based on downward adjustment automatically result in the account being placed on notice, within the meaning §704.3(b)(3), so that only a delayed payout after the three-year notice expires is permissible?

Response: If adjusted downward it must be paid out based on the needs of the corporate.

5. Should there be a requirement that any withdrawal of membership capital be conditioned on the Corporate's ability to meet all applicable capital requirements following withdrawal?

Response: Yes

Risk-based Capital and Contributed Capital Requirements

1. Should NCUA consider risk-based capital for Corporates consistent with that currently required of other federally regulated financial institutions?

Response: Yes, if they also have expanded authority.

2. What regulatory and statutory changes, if any, would be required to effectuate such a change?

Response: not sure

3. Should a natural person credit union be required to maintain a contributed capital account with its Corporate as a prerequisite to obtaining services from the Corporate?

Response: definitely

4. Should contributed capital be calculated as a function of share balances maintained with the Corporate? What about using asset size?

Response: More so the asset size and should be consistent. NCUA should allow various approaches to meet each Corporates business model.

Permissible Investments

NCUA is considering whether the Corporate investment authorities should be constrained or restricted. Presently, Corporates have the authority to purchase and hold investments that would not be permissible for natural person FCU members under Part 703 (or, in some cases, outside of what is authorized for a state chartered credit union).

1. Should the NCUA limit Corporates' investment authorities to those allowed for NPCUs?

Response: No they need a greater diversity in their options.

2. Should the NCUA prohibit certain categories of, or specific, investments?

Response: No in reality they should be expanded.

Credit Risk Management

1. Should the NCUA limit the extent to which a Corporate may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs)?

Response: They should be a tool, but what good are the agencies if they are not accurate, they need to be regulated and held accountable.

2. Should the NCUA require more than one rating for an investment, or require that the lowest rating meet the minimum rating requirements of Part 704?

Response: More than one rating agency should be used they give a broader perspective and one major difference occur it is easier isolate the issue.

3. Should the NCUA require additional stress modeling tools in the regulation to enhance credit risk management?

Response: Yes, they should use stress modeling tools its onlg best practices to do so.

4. Should Part 704 be revised to lessen the reliance on NRSRO ratings?

Response: No, but as I have stated previously, the NRSRO ratings should mean something and be correct.

5. Identify any other changes that may be prudent to help assure adequate management of credit risk. Considerations should include whether Part 704 should be revised to provide specific concentration limits, including sector and obligor limits.

Response: Adequate risk diversification is essential and the concentration issues we currently have would have been mitigated with additional investment options.

6. What specific limits would be appropriate for Corporates?

Response: I cannot answer this without additional information on what the corporate will look like in the future.

7. Should Corporates be required to obtain independent evaluations of credit risk in their investment portfolios?

If so, what would be appropriate standards for these contractors?

Response: In good times the credit risk may not have existed and as the economy changes then is the time to consider evaluation of credit risk and take appropriate action before it becomes a problem.

8. Should Corporates be required to test sensitivities to credit spread widening, and if so, what standards should apply to that effort?

Response: It is hard to compare this crisis with historic events. Spreads have been substantially narrower in the past. But they should be tested on a regular basis just as NEV or other stress tests.

Asset Liability Management

Under past rules, the NCUA required Corporates to perform net interest income modeling and stress testing. The agency is considering re-instating that requirement in light of the current market. Alternatively, the agency may consider some form of mandatory modeling and testing of credit spread increases.

1. Should the NCUA require Corporates to use monitoring tools to identify these types of trends, including specifically comments about tangible benefits, if any, which would flow from these types of modeling requirements?

Response: Yes it would help but could it have predicted the current crisis? I believe it is beneficial and NCUA should model the whole network in the future.

Corporate Governance

1. Should the NCUA require that a director possess an appropriate level of experience and independence?

Response: No, some of the best minds on Wall Street were independent, possessed the appropriate level of experience, were even paid and look how they performed. The board of a corporate should be from a owner credit union and be elected based on their merit.

2. Should the agency set term limits, allow compensation for Corporate directors, and requiring greater transparency for executive compensation?

Response: No term limits can be just as harmful if not more so by eliminating qualified directors from serving.

3. Is the current structure of retail and wholesale Corporate credit union boards appropriate given the Corporate business model?

Response: Yes, the boards are elected from the membership and represent the needs of the member credit unions.

4. Should NCUA establish more stringent minimum qualifications and training requirements for individuals serving as Corporate credit union directors?
If so, what should the minimum qualifications be?

Response: Having a standard is good but the evaluation process and determination if person is qualified would be difficult at best. I would definitely encourage a training requirement for all directors. And what are the minimum stringent qualifications for an NCUA director?

5. Should the NCUA establish a category of "outside director," (persons who are not officers of that Corporate), officers of member natural person credit unions, and/or individuals from entirely outside the credit union industry?
Should the NCUA require that Corporates select some minimum number of outside directors for their boards?

Response: No the directors should represent the member credit unions. Outside directors have not helped the Federal Home Loan Banks.

6. Should U.S. Central be required to have some directors from NPCUs?

Response: No US central is owned by the corporate credit unions and their CEOs have the most qualifications and understanding of the operations.

7. Comment is also sought on whether Corporate directors should be compensated, and, if so, whether such compensation should be limited to outside directors only.

Response: I believe it is inappropriate for directors to be compensated, just my philosophy.

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